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# Defense in the 1989 Soviet State Budget: Still Not Credible

A Research Paper

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# Defense in the 1989 Soviet State Budget: Still Not Credible

A Research Paper

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SOV 90-10026  
June 1990

**Defense in the 1989 Soviet  
State Budget: Still  
Not Credible**

**Summary**

*Information available  
as of 10 May 1990  
was used in this report.*

In May 1989 the Soviets announced a revised defense budget of 77.3 billion rubles for 1989—a figure that was nearly four times the 20.2 billion rubles previously announced for that year. In September, Finance Minister Pavlov published a revised state budget for 1989 that incorporated the new, higher defense spending figure and a downward revision in several nonmilitary budget accounts. Many expenditure accounts in the new state budget have been redefined and regrouped, but the published figures make clear that all of the newly acknowledged military spending had previously been contained in two nonmilitary groups—"Financing the National Economy" (FNE) and "Sociocultural Measures."

We estimate that the Soviets actually spent 130-160 billion rubles on defense in 1989, about double the new 77.3-billion-ruble Soviet figure. Soviet officials have acknowledged that their new figure excludes expenditures for some activities that we characterize as defense—including space programs, some RDT&E, and certain paramilitary organizations such as construction and railroad troops, civil defense forces, and KGB Border Guards. We estimate that spending for such excluded activities totals about 25 billion rubles. The Soviet figure also reflects subsidized prices paid by the Ministry of Defense, although the subsidies for defense are difficult to locate and measure

Some of the exclusions and subsidies are embedded in the state budget's nonmilitary categories, and others are outside the budget:

- We estimate that at least 15 billion rubles—and possibly as much as 50 billion rubles—of ostensibly nonmilitary spending in the state budget is directed to military purposes.
- Off-budget subsidies include nonrepayable loans extended to defense enterprises by the Soviet banking system, defense plant diversion of some profits from civil goods to military production, income that military units generate from their own subsidiary economic activities, and probably various forms of tax deductions granted to defense industry. We are unable to estimate the size of these subsidies.

Continuing pressure to cut its defense spending, coupled with the need to get its financial house in order and improve its management, should lead Moscow to try harder to eliminate defense spending from the budget's

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nonmilitary accounts. As the Soviets overcome their problems in financial accounting and control and reduce hidden subsidies, we would expect to see a decrease or slower growth in the civilian budget accounts that presently contain defense subsidies. Under these circumstances, the improvement in pricing would make the published defense budget more accurate, although we still would have difficulty tracking off-budget financing for defense because of the lack of information on this topic

The prospects for *glasnost* in the defense budget, however, are still unclear because of continuing technical and political problems. In addition to the difficulty of valuing the various defense subsidies, Moscow officials probably feel some political pressure not to reveal the full extent of their defense spending. Such a release would undercut Soviet officials who have stated that the revised budget includes "everything." Also, Soviet citizens have already expressed "sticker shock" over the size of the official defense budget, and admission of still higher spending might fuel demands for further spending cuts and further undermine the military. Any revelation of still greater defense spending would probably be couched in terms of an accounting change or expanded coverage.

Nevertheless, Westerners and Soviets alike have questioned the accuracy of the official defense spending figure, creating added pressure for improvement in the defense budget. Indeed, [ ] the armed forces subcommittee of the Supreme Soviet Defense and State Security Committee (DSSC) was developing a revised estimate of Soviet defense spending that is about twice as large as the official budget. [ ] the Committee wants to establish a strict regime of financial accountability for the military. Such a mechanism would require the ending of government subsidies that are carried outside the declared defense budget. The Committee's efforts are being reinforced by the advent of full-cost accounting in the defense industry. This economic reform would require the Ministry of Defense to pay much higher prices for the weapons it receives (in place of a low price and a subsidy). Thus, the military would have to either submit a much more realistic defense budget or take substantial real cuts to live within the artificially low defense budget.

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**Scope Note**

This report shows how the 1989 Soviet state budget has been changed to incorporate the new Soviet claim regarding defense spending. Its purpose is to test the validity of the announced Soviet defense spending figure and to speculate on where the remaining funds for defense are located both within and outside the budget.

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## Defense in the 1989 Soviet State Budget: Still Not Credible (U)

### Background

Since World War II, the Soviets have traditionally released only a single-figure defense budget each year—initially reported as 20.2 billion rubles in the proposed state budget for 1989. This figure had increased relatively little since the 1960s and did not reflect observed increases in Soviet force levels and military programs. The Intelligence Community, therefore, anticipated that a “corrected” state budget would reflect a higher defense spending figure and spending in other budget categories would show corresponding decreases. In May 1989, President Gorbachev finally unveiled a new version of the Soviet defense budget totaling 77.3 billion rubles for 1989 (see inset). In late September, Finance Minister Pavlov published a revised state budget that, as expected, reflected the higher defense spending figure and a downward revision in several nonmilitary line items.

Soviet state budget expenditures are divided into several groups.<sup>1</sup> The largest group is “Financing the National Economy” (FNE), which funds various activities in Soviet industry, agriculture, transport, and other sectors. Another major group is “Sociocultural Measures,” which funds activities such as education, health, culture, and social security. The Sociocultural Measures group also traditionally funded science, but in the revised state budget the FNE group funds science. Aside from the group containing the defense budget, the state budget also contains groups for financing foreign economic activities, servicing internal debt, and establishing monetary reserves. The published budget also contains substantial residuals of unexplained spending

Because of its large residual and its connection with industry, the Intelligence Community and other Western analysts believed that FNE contained the bulk of Soviet procurement and construction spending, along with a substantial portion of O&M costs.<sup>2</sup> In addition, our analysis indicated

### The New Soviet Defense Budget

*A week after President Gorbachev announced the 1989 Soviet defense budget of 77.3 billion rubles, Premier Ryzhkov provided the following breakdown of this number (figures are in billions of rubles):*

Procurement	32.6
RDT&E	15.3
Personnel, operating	20.2
Construction	4.6
Pensions	2.3
Other	2.3
Total	77.3

(U)

*Although an improvement on previous Soviet reporting levels, the new budget information falls far short of Western standards of disclosure and is totally inadequate for analyzing questions regarding the defense burden, spending by major military mission, or the impact of price changes over time. Moreover, as described in this paper, the overall defense spending total given in the budget is unpersuasive, primarily because of limited coverage, subsidies for the military, and probably some off-budget financing. The CIA thus continues to estimate that the actual Soviet defense bill in 1989 was somewhere between 130 and 160 billion rubles*

that the Sociocultural Measures group historically contained the lion's share of Soviet military RDT&E expenditures in its “Science” account. Also, since the Sociocultural Measures group’s “Public Education,” “Health Care,” and “Social Insurance” subaccounts

<sup>1</sup> This footnote and all following footnotes begin on page 13

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were very broadly defined, we also believed that these subaccounts might contain military education, health, and pensions.<sup>1</sup>

#### **The New Revelations**

The revised 1989 state budget that was published in September by Finance Minister Pavlov incorporates President Gorbachev's new defense spending figure.<sup>4</sup> Our analysis indicates that all of the added defense spending came from the previously nondefense budget accounts. We estimate that 40.2 billion rubles in additional defense spending probably came from the FNE group and about 16.9 billion rubles apparently came from the Sociocultural Measures group (see table 5, the foldout at the end of this paper). These figures provide strong support for our previous judgment regarding how Soviet defense spending was traditionally distributed among the other budget accounts. The newest Soviet state budget, however, includes important changes in the account designations that make direct comparisons difficult and lead to some uncertainties about the amounts transferred.

***The Sociocultural Measures Group.*** Between the proposed 1989 state budget published in 1988 and Pavlov's new revised 1989 budget, the Soviets officially removed "Scientific Research" expenditure from the Sociocultural Measures budget group and placed it with the FNE group in a line item called "Financing of Science." Since some prototype fabrication costs were probably included in the FNE budget previously,<sup>5</sup> this move probably reflects a desire to consolidate science and RDT&E spending within one group and to emphasize its relation to the economy.

Although the proposed 1989 budget had contained a total of 21.5 billion rubles for Scientific Research, the revised 1989 budget contains only 7.5 billion for the apparently broader category Financing of Science. The remaining 14.0 billion rubles probably was spending on defense RDT&E and is now included in the 77.3-billion-ruble defense spending figure for 1989. This is consistent with Premier Ryzhkov's assertion in June 1989 that the new defense spending figure included a total of 15.3 billion rubles for RDT&E. The additional 1.3 billion rubles of RDT&E may be spending on military prototypes that was previously included in FNE.

In his speech proposing the 1989 budget, the Soviet Finance Minister asserted that the Sociocultural Measures group would contain 73.9 billion rubles for "state social insurance and working people's social security." In the revised state budget, however, only 71.6 billion rubles is allocated to Social Insurance and Social Security. The difference of 2.3 billion rubles is equal to the amount cited by Premier Ryzhkov for military pensions. In addition, a Ministry of Finance report has indicated that in 1988 the Social Security account still included pensions for lower-ranking soldiers, sergeants, petty officers, and commissioned officers. Therefore, the decline of 2.3 billion rubles most likely represents military pensions that have been moved from the Social Security account to the new defense budget of 77.3 billion rubles.

Finally, the proposed figure of 47.5 billion rubles for Public Education falls to 46.9 billion in the revised budget, leading us to believe that up to 0.6 billion rubles in education costs, such as expenditures on military academies, may also have been moved from Sociocultural Measures into the new defense budget. This spending, when added to the 14.0 billion from Science and the 2.3 billion from Social Security, leads to a total of at least 16.9 billion in spending transferred from Sociocultural Measures to defense.<sup>6</sup>

***Financing the National Economy.*** In the proposed 1989 budget, the FNE group consisted entirely of two subaccounts designated "Centralized Financing of the Expenditure of Sectors of the National Economy" and "Targeted Budget Subsidies for Food and Other Social Needs." In the revised 1989 budget, however, the FNE group is divided into "Centralized Capital Investments," "Subsidies for Food Production," Financing of Science, and a residual of unexplained expenditures. On the basis of past Western analyses of the types of expenditures in FNE, this residual probably consists of financing for increases in enterprises' working capital, portions of enterprises' operational expenditures, some bonuses, subsidies for planned losses, and various other expenditures.<sup>4</sup>

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***The Effects of Subsidies on CIA's Estimates of Soviet Defense Spending***

*In preparing our estimates of Soviet defense spending, we begin with estimates of military production, order of battle, manning practices, operating tempos, and all other aspects of Soviet defense activities. For each of these activities, we then apply a price:*

- *For the procurement of weapons and equipment, we use or estimate the enterprise wholesale price. The Soviets intend these prices to cover the producer's costs of production and provide a profit for future investment, bonuses, and various other things including contributions to the parent ministry.*
- *For the costs of military personnel, we use the pay and allowances they receive.*
- *For the construction of military facilities, we use Soviet handbooks of cost factors to which we add a percentage to account for known cost underestimations in the handbooks.*
- *For operating costs, we use Soviet planning factors that are expressed as percentages of the initial procurement costs.*
- *For RDT&E, we use a variety of Soviet data, including the average pay, the average material costs, and the average equipment costs per science worker*

*These prices all represent the costs incurred by the providers of the goods and services to the military, and so our spending estimates correct for planned subsidies—such as a producing ministry funding investment and other overhead costs for a defense plant—subject only to the errors inherent in our estimating process. Our estimates would not, however, capture any systematic unofficial subsidies such as a shifting of some military production costs to colocated civilian production. Our spending estimates do not correct for distortions in the Soviet pricing system—such as low conscript pay and military outlays for raw materials, food, and housing—that do not reflect the true “opportunity cost” of their resources in the Soviet economy. We compensate for these distortions with a “factor cost” adjustment when making estimates of the economic impact of defense spending on the economy—for example, defense as a share of GNP. (See DI Reference Aid SOV 87-10069, [Unclassified], November 1987, A Guide to Monetary Measures of Soviet Defense Activities for a fuller explanation of factor costs and an extended discussion of the use of prices in measuring Soviet defense activities.*

The proposed 1989 budget had an FNE total of 275.7 billion rubles for all subaccounts, but the revised 1989 budget had an FNE total of only 199.4 billion rubles. The difference between the earlier budgets and the latest budget can be accounted for by analyzing changes in individual budget accounts:

- *Centralized expenditures.* The proposed 1989 budget allocated 172.7 billion rubles for Centralized Financing of the Expenditure of Sectors of the National Economy. The wording of the new account designations indicates that 70.3 billion rubles of this sum is now in the revised budget's Centralized

Capital Investments account. About 30.1 billion rubles probably went into the new FNE residual.<sup>9</sup> This leaves approximately 72.3 billion rubles from the previous total for redistribution into other budget categories, notably defense.

- *Subsidies.* The proposed 1989 budget contained 103.0 billion rubles in Targeted Budget Subsidies for Food and Other Social Needs. Of this amount, however, 87.8 billion now appears in the revised

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budget's Subsidies for Food Production account. Based on statements by former Finance Minister Gostev, about 3.7 billion rubles probably went into the FNE residual.<sup>a</sup> This leaves about 11.5 billion rubles for redistribution in the budget's non-FNE accounts.

Combining the total freed from Centralized Capital Investments (about 72.3 billion rubles) and Subsidies (about 11.5 billion rubles), plus the additional sum of 3.2 billion allocated to FNE from other unidentified budget accounts in the state budget law, the total decrease in FNE that has been reallocated to other budget groups is 87.0 billion rubles.<sup>12</sup> Of this sum, it appears that 46.8 billion rubles has been incorporated into other, newly disaggregated budgetary groups, such as "Servicing State Internal Debt," "Funding Law Enforcement Organs," and an "Overall Budget Residual".<sup>13</sup> The remaining 40.2 billion rubles probably have gone into the new defense spending figure, primarily for procurement and construction.<sup>14</sup> Coupled with the 14.0 billion rubles of RDT&E from Science, the 0.6 billion for education from Public Education, the 2.3 billion for military pensions from Social Security, and the 20.2 billion rubles previously declared as military personnel and upkeep, this spending adds to 77.3 billion—the amount that President Gorbachev now claims the Soviets spent on defense in 1989 (see table 1).

#### What Is Still Missing?

Although the 77.3-billion-ruble defense spending figure is a significant increase from earlier Soviet claims, it is still only about half our estimate of 130-160 billion rubles for 1989. The primary reasons for the low figure appear to be limited coverage and artificially low prices charged to the Ministry of Defense. Each of these phenomena implies that significant sums of defense spending still lie in the state budget's nonmilitary accounts. However, the difference also probably reflects some off-budget financing for defense activities.

**Limited Coverage.** Our estimate includes all activities that we believe the Soviets traditionally have included in a definition of defense (based on Soviet publications and emigre statements over an extended period), but

**Table 1**  
**Deriving the New Defense Figure in**  
**the State Budget: A Summary**

*Billion rubles*

Origin	Amount	Probable Use
Portion from Science Account	14.0	RDT&E
Portion from Social Insurance	2.3	Pensions
Portion from Public Education	0.6	Education
Net freed from FNE and available for defense	40.2 <sup>a</sup>	Procurement, Construction, RDT&E, other
Previously given line item for defense	20.2	Personnel, Operating
<b>Total</b>	<b>77.3</b>	
Gorbachev's new defense figure	77.3	

<sup>a</sup> We estimate 87 billion rubles to be the total freed from FNE. We also estimate that the increases in other accounts apparently financed by freed FNE funds are 46.8 billion rubles. This leaves 40.2 billion rubles for defense.

recent reporting indicates that the Soviets have excluded some of these activities from Gorbachev's defense budget:

- **Some RDT&E.** Boris Yel'tsin, former Moscow party chief, and Leonid Abalkin, now a deputy premier of the USSR, have said that at least some research with military application was excluded from Gorbachev's figure. We believe that this excluded research consists of military-related RDT&E conducted at civilian facilities and not funded by the MOD. We estimate that this spending totals some 9-12 billion rubles. An unknown proportion of this would appear elsewhere in the budget, probably in the FNE Residual or the Science line item.
- **Various troops.** A Supreme Soviet decree has excluded railroad troops, the KGB Border Guards, and MVD Internal Troops from the armed forces. In addition, former Chief of the General Staff Akhromeyev, in his testimony before the House

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Armed Services Committee, confirmed that only those forces actively involved in defending the country from foreign aggression are considered part of the armed forces. We estimate that the cost of these excluded troops and their associated procurement and maintenance expenditures totals 2-4 billion rubles and probably appears in the revised budget's Law Enforcement account and the FNE Residual.

- *Space activities.* In a statement before the Congress of People's Deputies last May, Premier Ryzhkov seemed to indicate that at least some space expenditures were not in Gorbachev's new defense spending figure. In June, Ryzhkov also stated that total Soviet space expenditures were 6.9 billion rubles in 1989,<sup>14</sup> although we estimate that actual Soviet space expenditures last year were 10 billion rubles. Consistent with the possibility of some off-budget financing such as income from space activities,<sup>15</sup> we estimate that between 7 and 10 billion rubles in military-related expenditures appears in the state budget, probably in the Science account or in the budget's residuals

These expenditures alone total between 18 and 26 billion rubles. In addition, the Soviets have shifted other military-related responsibilities, such as some transportation for troops, to non-MOD agencies and have thereby created more excluded spending that may show up in the state budget. However, these additional exclusions probably amount to relatively little.

*Differences in Prices.* The low defense figure almost certainly reflects the artificially low prices that the MOD pays for some defense activities. In 1987, when the Soviets first promised to release their defense budget, they said this would have to await a general price reform, because some activities in the defense sector were highly subsidized. Commenting on the new defense budget, former Finance Minister Gostev noted that this price reform has not occurred. Abel Aganbegyan, an economic adviser to President Gorbachev, also said that the new budget is based on "highly artificial prices and standards." We believe that there are two main types of price subsidization—planned losses and shifted costs:

- *Planned losses.* In some East European countries, as well as the USSR, one common accounting procedure reportedly is for the military's purchase price of a weapon to be set below cost. Meanwhile, the weapon's full production cost plus a profit margin constitute the producer's true sale price. The difference between the low purchase price paid by the MOD and the true sale price of the producer is the "planned loss," and it is covered out of funds paid to the producer's ministry. The amount of the planned loss most likely depends on cost estimates that are agreed upon by the producing ministry and the military. The purchase price may be set arbitrarily, with an eye on internal politics and accounting needs, or to cover a specific, well-defined portion of the negotiated cost estimate. In the past, the planned loss subsidy probably was classified not under Defense, but under FNE as an expenditure in Article 31, "Other." Now the subsidy may be elsewhere, perhaps in the Overall Budget Residual. In either case, low MOD accounting prices and shifting of funds go hand in hand. Because of the lack of data on this type of subsidy, however, we cannot make a precise estimate as to the amount of planned loss subsidies in the budget.
- *Shifted costs.* This type of price subsidizing strategy includes a variety of procedures, all of which shift the financial burden of some military activities to civilian entities. For example, an enterprise producing weapons or equipment for the military might cross-subsidize its military goods by allocating some of their costs to civilian production. Other identified cost-shifting practices include writing off bank loans to defense industry or RDT&E organizations, providing various forms of tax deductions to defense industry, and allowing military units to utilize income from their own economic activities. These practices, however, all constitute off-budget financing and do not result in additional military spending in the budget's civilian accounts. (Although the shifting of some defense responsibilities to nonmilitary government agencies could be seen as on-budget cost shifting, we have treated it in this paper simply as an exclusion.

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Although various military-related expenditures would be buried in the budget's nondefense accounts, Soviet leaders may not be able to gauge the total amount of these expenditures and so may not really know how much they spend on defense. Although the Soviets almost certainly have records of centralized subsidies such as planned losses, their statistics may contain inaccuracies because of the confusing arrangement of individual spending accounts in the budget and the large number of ministries and firms receiving subsidies.<sup>16</sup> More important, subsidization measures are subject to the influence, and manipulation, of the producing ministries, enterprises, local authorities, and lower-level military officials. For example, when a local government provides public transportation services for troops—a subsidization of defense from the local government's budget—it is the local government that controls the service, the cost (to some extent), and the cost information.<sup>17</sup> The Soviets' 77.3-billion-ruble defense spending figure, therefore, may indeed be a best effort for the present, but they probably realize that it doesn't represent the true level of spending and that they still have additional work to do on this issue.

#### **Searching for the Additional Defense Spending in the Nonmilitary Accounts**

A close examination of the revised 1989 state budget shows that several nonmilitary budget categories probably contain substantial defense spending in addition to that announced by President Gorbachev. For some of these categories, we are highly confident that we have identified some additional defense spending. In others, we have been able to identify only spending that is possibly related to defense. Altogether, we can identify almost 50 billion rubles that do not have identified civilian purposes (see table 2). With a high degree of confidence, we believe that at least 15 billion rubles of this total goes to defense. Some of the remaining 35 billion could be military related.

**Probable Locations.** A Ministry of Finance (MOF) report on the 1988 budget<sup>18</sup> states that scientific investigations and prototype building may generally be financed out of an enterprise's funds or out of the centralized funds of a ministry—probably including

the operating funds of various sectors that are included in the budget's FNE residual of 33.8 billion rubles. After subtracting the Finance Minister's proposed spending on losses, child-related subsidies, and agricultural and housing operating expenditures, and allowing for spending on a variety of other items that we know are funded from the FNE Residual, we judge that 3-5 billion rubles of the FNE Residual has no identifiable use and is probably defense-related RDT&E. We estimate that the 2-4 billion rubles spent on troops not covered by the defense budget is split about evenly between the budget's FNE Residual and Law Enforcement Account. Therefore, total additional military spending in the FNE Residual totals 4-7 billion rubles, and additional military spending in the Law Enforcement Account totals 1-2 billion rubles.

In June, Premier Ryzhkov said that total Soviet space expenditures, which we believe are not included in the defense budget, included 3.0 billion rubles for civilian programs and the Buran shuttle system. We believe that this spending is almost certainly in the 7.5 billion rubles designated for Science. In support of this judgment, the remaining 4.5 billion rubles for Science is consistent with the figure of 5.1 billion rubles for identified line items, including some spending on astronomy and physics, in a Ministry of Finance (MOF) report on the 1988 budget. In addition, of those Science line items discussed in the MOF report, over 500 million rubles probably is defense-related RDT&E. In particular, almost all of the 101 million rubles for nuclear physics probably has some application to defense, as does perhaps a quarter of the 1.7 billion rubles spent on maintaining the all-union and republic Academies of Science, based on an analysis of their RDT&E activities. Assuming that Science expenditures in 1989 were not dramatically different from those in 1988, over a half billion rubles of the defense-related RDT&E is probably still in the Science line item. When added to the 3.0 billion rubles in space expenditures, the total remaining military-related spending in the Science account is almost 4 billion rubles.

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**Table 2**  
**Possible Location of Additional Military Spending**  
**in the Revised 1989 Soviet State Budget**

*Billion rubles*

Budget Account Designation	Published Total	Additional Military Spending Included		
		Probable Additional Spending	Possible Additional Spending	Total Estimate
<b>Budget Allocations—Total</b>	<b>494.8</b>			
<b>FNE/Material Production and Science</b>	<b>199.4</b>			
Centralized Capital Investments	70.3		0-10	0-10
Subsidies for Food Production	87.8			
Financing of Science	7.5 <sup>a</sup>	4		4
(Calculated Residual)	33.8	4-7		4-7
<b>Sociocultural Measures/Nonproduction</b>	<b>143.4</b>			
Public Education, Culture, Art	46.9			
Health Care and Physical Culture	24.9	0-1		0-1
Social Insurance and Security	71.6	2		2
<b>Foreign Economic Activity</b>	<b>31.4</b>			
Funding Foreign Trade	10.8			
Credits and Foreign Aid	12.5			
Servicing External Debt	5.3			
(Calculated Residual)	2.8		0-2	0-2
<b>Centralized Social Requirements</b>	<b>88.7 <sup>b</sup></b>			
Financing of Defense	77.3			
Organs of State Administration	2.8			
Financing Law Enforcement Organs	8.6	1-2		1-2
Servicing State Internal Debt	7.2			
Monetary Reserves	3.7			
(Overall Budget Residual)	21.0		0-20	0-20
<b>Total</b>		<b>11-16</b>	<b>0-32</b>	<b>11-48</b>
<b>Total Budgetary Defense Bill (Cumulative)</b>		<b>88.3-93.3</b>	<b>88.3-125.3</b>	<b>88.3-125.3</b>

<sup>a</sup> Soviet publications and Pavlov's speeches have been ambiguous regarding the inclusion of Science in the FNE total of 199.4 billion rubles. Although this table, and indeed this analysis, assumes that the money for Science is included in the FNE total, an alternative scenario would place Science under the first group but financed separately from FNE. In this latter scenario, the FNE Residual would rise and the Overall Budget Residual would fall by the amount of the financing for Science. The overall analysis would not change significantly, however.

<sup>b</sup> The Soviets have not provided a total for this group. If the Overall Budget Residual actually consists of military spending, it may be included in this group, bringing the group's total spending figure to almost 110 billion rubles.

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In addition, the Ministry of Finance report on the 1988 budget gave a figure of 4.5 billion rubles for total military pensions—1.6 billion rubles for lower-ranking personnel and 2.9 billion rubles for officers and their families. Because military pensions almost certainly totaled at least 4.5 billion again in 1989, the new budget's Social Insurance and Security account must still contain about 2 billion rubles for military pensions, even though 2.3 billion rubles were transferred into the new defense-spending figure."

Just as the Public Education and Social Insurance and Security accounts in the Sociocultural Measures group almost certainly contained military spending, before the budget revision, the Health Care account appears broad enough to accommodate military health care. Therefore, using the arbitrary but modest assumption that up to 5 percent of this account is for the military—medical services for military personnel in civilian facilities, for example—we judge that this account probably contains up to 1 billion rubles in defense spending.

Taking into account the 4-7 billion rubles in the FNE Residual, the 4 billion rubles in Science, the 1-2 billion in Law Enforcement, the 2 billion rubles in Social Insurance and Security, and the up to 1 billion rubles in Health Care, we are confident that the new budget contains at least 11-16 billion rubles of additional defense spending.

*Possible Locations.* Other budget accounts are large enough and ambiguous enough to encompass substantial military spending. For instance, the Soviets have announced a 30-billion-ruble cut (over 40 percent) in Centralized Capital Investments between 1989 and 1990 (see table 3 on page 10). This number seems unrealistically large, especially given the inertia in the Soviet investment program. Therefore, the cut may include the elimination of some defense spending harbored in the account in 1989. We believe it is at least possible that up to 10 billion rubles of this account could be for military purposes—airports used by the military and civilians, for example.

The Soviets' proposed budget for Foreign Economic Activities totals 31.4 billion rubles in the new budget.

The Soviets have also disaggregated the group's figure in the new budget. The Soviet figure of 12.5 billion rubles for "Credits and Foreign Aid" is consistent with our own independent estimate for these activities, and the Soviet estimate of 5.3 billion rubles for Servicing External Debt is almost precisely equal to our independent estimate of 5.5 billion rubles. We have no independent estimate for the "Funding Foreign Trade" category—which probably consists of subsidies on foreign trade operations—but we believe that the 10.8-billion-ruble figure provided is reasonable, given observed trade levels. Only the residual of 2.8 billion rubles is unexplained. Because there seems to be no other explanation for this residual, we believe that at least a portion of it may relate to defense. Defense spending in this residual might support units based outside the USSR.

Finally, the new state budget appears to contain a residual of unexplained spending totaling 21.0 billion rubles. This is calculated by subtracting total specified spending from the overall budget total of 494.8 billion rubles. Given the apparent consistency of the budget's other accounts with the Finance Ministry's 1988 budget report, this Overall Budget Residual is suspicious. Because the Finance Minister's estimate of 11.0 billion rubles for losses is consistent with what appears to be a figure for non-military-related losses in 1988, and probably appears in FNE, the planned losses and other defense price subsidies may appear in the Overall Budget Residual and off budget. Given this evidence, a substantial portion of this residual—as much as 20 billion rubles—could be defense spending on procurement, construction, operations, and perhaps some RDT&E, including outlays for excluded space. Because we cannot rule out the possibility that some or all of the spending in this residual is for strictly civilian purposes, however, we have for this analysis treated it as only a possible source of substantial additional defense spending in the state budget.<sup>20</sup>

Finally, there are no objective criteria for evaluating the remaining accounts such as Subsidies for Food Production, Servicing State Internal Debt, or

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"Monetary Reserves." We can find no reason, however, to doubt the figures given for these accounts by the Soviets and expect that any military spending in these accounts probably would total very little.

#### Where's the Remainder?

Even when the entire 50 billion rubles in probable and possible military spending is added to the published budget of 77.3 billion rubles, the budgetary defense bill for 1989 is only 127 billion rubles, thus leaving several billion rubles between the Soviet budget and the low end of our estimate for 1989. We believe that the remaining shortfall can probably be explained by the following forms of off-budget financing:

- *Forgiven bank loans.* Bank loans made to enterprises for producing some defense goods—and especially RDT&E—may be simply written off or continually rolled over. The use of nonrepayable bank loans subsidizes defense goods essentially by the printing of money, and it shifts the costs of defense to the general economy primarily through inflationary pressures.
- *Cross-subsidization.* This financing consists of cross-subsidizing military and civilian production at the enterprise or ministry level. For example, an electronics enterprise might produce a stereo system at a cost of 1,000 rubles but could sell it for 2,000 rubles. It might then shift some of the costs of its military goods—most likely overhead costs—to the stereo system. This may be accomplished by adding the military goods' overhead to the costs of the stereo system. Such shifting results in a lower price for the MOD, at the expense of the consumer. We also know, however, that some costs of civilian goods have been shifted to enterprises' military goods.
- *Special means.* Another strategy for shifting costs off budget to civilian consumers is for the military to sell its services to civilian entities. For example, many military construction units in the Soviet Union earn income in civil engineering projects and could use this income to finance military activities. Similarly, recent press reports have asserted that some space projects can turn a profit, which then might be used to subsidize defense. Finally, many

military units subsidize some operations from such diverse activities as trash removal, yard work, street sweeping, and food production on military farms.

- *Tax deductions.* Recent press reports indicate that Poland, and possibly also the USSR, has long subsidized defense by granting various kinds of tax deductions to enterprises engaged in defense production. These tax deductions shift defense costs to the general economy by imposing greater tax and other resource requirements on civilian sectors.

It is possible that there are other types of off-budget financing for defense that we have not yet identified.

#### The 1990 Budget

As the Soviets move forward into 1990, severe dislocations from their economic crisis will be reflected in their state budget. Reflecting efforts to contain their budget deficit, their projected 1990 budget will cut total spending to 488.2 billion rubles from 494.8 billion rubles in the approved 1989 budget (see table 3). More specifically, the projected 1990 budget shows a planned sharp drop of 29.8 billion rubles in capital outlays, 5.4 billion for funding foreign economic activities, and 6.4 billion in defense spending outlays. The 21.0-billion-ruble Overall Budget Residual remains essentially unchanged. Financing of social and cultural activities is to rise by 15.4 billion rubles, reflecting the Soviets' efforts to reorient their economy to consumer needs. Science is to increase by 3.5 billion rubles.

Of the budgetary accounts most likely to contain significant amounts of still-undisclosed defense spending—Science, the FNE Residual, and possibly Centralized Capital Investments and the Overall Budget Residual—only Centralized Capital Investments shows a significant decrease in 1990. If this decrease includes much of the 10 billion rubles in military spending that we believe could possibly lie in this account, then the actual Soviet defense budget cut in 1990 is significantly more than the announced 6.4

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**Table 3**  
**Comparison of Soviet-Approved 1989 State Budget and**  
**Proposed 1990 State Budget**

Budget Account Designation	Approved 1989 Total	Proposed 1990 Total	Change (Billion rubles)	Change (percent)
<b>Budget Allocations--Total</b>	<b>494.8</b>	<b>488.2</b>	<b>-6.6</b>	<b>-1.3</b>
<b>FNE/Material Production and Science</b>	<b>199.4</b>	<b>187.4</b>	<b>-12.0</b>	<b>-6.0</b>
Centralized Capital Investments	70.3	40.5	-29.8	-42.4
Subsidies for Food Production	87.8	95.7	7.9	9.0
Financing of Science	7.5 <sup>a</sup>	11.0 <sup>a</sup>	3.5	46.7
(Calculated Residual)	33.8	40.2	6.4	18.9
<b>Sociocultural Measures/Nonproduction</b>	<b>143.4</b>	<b>158.8</b>	<b>15.4</b>	<b>10.7</b>
Public Education, Culture, Art	46.9	48.9	2.0	4.3
Health Care and Physical Culture	24.9	26.7	1.8	7.2
Social Insurance and Security	71.6	83.2	11.6	16.2
<b>Foreign Economic Activity</b>	<b>31.4</b>	<b>26.0</b>	<b>-5.4</b>	<b>-17.2</b>
Funding Foreign Trade	10.8	7.4	-3.4	-31.5
Credits and Foreign Aid	12.5	9.7	-2.8	-22.4
Servicing External Debt	5.3	6.2	0.9	17.0
(Calculated Residual)	2.8	2.7	-0.1	-3.6
<b>Centralized Social Requirements</b>	<b>88.7<sup>b</sup></b>	<b>82.6<sup>b</sup></b>	<b>-6.1</b>	<b>-6.9</b>
Financing of Defense	77.3	70.9	-6.4	-8.3
Organs of State Administration	2.8	2.9	0.1	3.6
Financing of Law Enforcement Organs	8.6	8.8	0.2	2.3
<b>Servicing State Internal Debt</b>	<b>7.2</b>	<b>8.8</b>	<b>1.6</b>	<b>22.2</b>
<b>Monetary Reserves</b>	<b>3.7</b>	<b>4.1</b>	<b>0.4</b>	<b>10.8</b>
<b>(Overall Budget Residual)</b>	<b>21.0</b>	<b>20.5</b>	<b>-0.5</b>	<b>-2.4</b>

<sup>a</sup> Soviet publications and Pavlov's speeches have been ambiguous regarding the inclusion of science in the FNE total of 199.4 billion rubles. Although this table, and indeed this analysis, assumes that the money for science is included in the FNE total, an alternative scenario would place science under the first group but financed separately from FNE. In this latter scenario, the FNE Residual would rise and the Overall Budget Residual would fall by the amount of the financing for science. The overall analysis would not change significantly, however.

<sup>b</sup> The Soviets have not provided a total for this group. If the Overall Budget Residual actually consists of military spending, it may be included in this group, bringing the group's total spending figure to almost 110 billion rubles.

billion rubles. Given the ambiguities remaining regarding the structure of the budget and the coverage of some categories, however, it is impossible to say on the basis of budgetary analysis whether still-embedded defense expenditures are being cut.

Other reporting indicates that hidden defense subsidies may be decreasing, however. Various defense

industry officials are now lamenting over the loss of highly profitable weapons contracts—contracts that were probably funded in part out of hidden subsidies. In addition, former Minister of Defense Marshal Akhromeyev and General Shaposhnikov have said that the introduction of self-financing (*khozraschet*)

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will force prices paid by the MOD to go up. Also, as cost and profit considerations come to the forefront of manufacturing operations, weapons prices will be forced to reflect true costs. Chief of Staff Marshal Moiseyev has reportedly acknowledged that the Ministry of Defense will thus be caught in a squeeze between lower budgets and higher equipment prices.

#### Prospects for *Glasnost*

If the Soviets provide additional detail on the coverage of their defense budget—perhaps by fulfilling their promise to release the budget in the UN format by the end of 1990—we will be better able to explain the difference between our defense spending estimate and the Soviet figure. Moreover, continuing pressure to cut their defense spending, coupled with the need to get their financial house in order and make it better managed, may induce the Soviets to improve their financial accounting and control and reduce hidden subsidies. If the Soviets eliminate defense spending from nonmilitary budget categories, we would expect to see some decrease or slower growth in the civilian budget accounts that presently contain defense subsidies. Under these circumstances, the improvement in pricing would make the published defense budget more accurate, although we still would have difficulty tracking subsidies resulting from off-budget financing because of the lack of information on this topic.

The prospects for *glasnost* in the defense budget are still unclear, however, because of both technical and political problems. Top-level Soviet authorities probably are still having difficulty valuing defense subsidies because of problems in financial accounting and control. Although the Soviets almost certainly have records of centralized subsidies such as planned losses, their statistics may contain inaccuracies because of the confusing arrangement of individual spending accounts in the budget and the large number of ministries and firms receiving subsidies. More important, top-level authorities are probably having difficulty identifying and valuing noncentralized subsidies, such as shifted costs at the enterprise level, especially given weaknesses in Soviet accounting practices.

**Table 4**  
**New Details on Soviet**  
**Defense Budgets**

*Billion rubles*

	1989	1990
Procurement	32.6	31.0
RDT&E	15.3	13.2
Personnel/Operating Costs of the "Army and Navy"	20.2	19.3
Monetary Payments *		6.8
Military Personnel	6.3	5.8
Civilians		1.0
Material-technical supply and other		12.5
Food and Clothing		2.9
Medical and Communal Services		1.2
Maintenance, Operation, and Repair of Weapons and Equipment		3.3
Transportation and Communications		1.9
Training and Maintenance of Facilities		3.2
Construction	4.6	3.7
Housing		1.0
Social-Cultural Facilities		0.7
Capital Repairs on Housing and Cultural Facilities		0.3
Other (Residual)		1.7
Pensions	2.3	2.4
Other (Production and Delivery of Nuclear Weapons)	2.3	1.3
Total	77.3	70.9

\* The figures in lighter type are new. The new data were provided by Soviet Colonel General Babyev at the Confidence and Security Building Measures seminar on military doctrine in Vienna, 31 January 1990.

We expect that the Soviets will make slow progress in these endeavors. For example, the Soviets have recently provided additional detail on the personnel and construction spending in their defense budget for 1990 (see table 4), but they have not adjusted the overall totals for these categories perhaps because of continuing technical problems.

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Moreover, Moscow officials probably feel some political pressure not to reveal the full extent of their defense spending. Such a release would undercut frequent insistence by Gorbachev and other senior Soviet officials that the revised budget includes "everything." Soviet citizens already have expressed "sticker shock" over the size of the official upward revision. Acknowledging still higher spending might well fuel demands for further spending cuts, potentially undermining ongoing defense policy initiatives and certainly undercutting recent military arguments that they efficiently deliver military capability comparable to that of the United States at considerably less cost. Publication of an "accurate" defense budget would probably be cast as the result of new accounting procedures or a change in coverage.

Nevertheless, Westerners and Soviets alike have questioned the validity of the official Soviet defense spending figure, creating added pressure for improvement in the defense budget. Indeed, [

[ ] the Supreme Soviet armed forces subcommittee was developing a revised estimate of Soviet defense spending that is about twice as large as the official budget.

[ ] The Defense and State Security Committee (DSSC) wants to establish a strict regime of financial accountability for the military. Such a mechanism would require the ending of government subsidies that are carried outside the declared defense budget. The Committee's efforts are being reinforced by the advent of full-cost accounting in the defense industry. This economic reform would require the Ministry of Defense to pay much higher prices for the weapons they receive (in place of a low price and a subsidy). Thus the military would have to either submit a much more realistic defense budget or take substantial real cuts to live within the artificially low defense budget.

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## End Notes

<sup>1</sup> In the Soviet financial system, the principal governmental budgets are the "union budget" and the "state budget." The union budget consists of the general revenues and expenditures of the central government and may be compared with the US federal budget. In contrast, the state budget consists of the union budget plus the budgets of the republics and local jurisdictions. The state budget is therefore similar to the total of all federal, state, and local governmental revenues and expenditures in the United States. Because the state budget is more inclusive, we use it in this analysis.

<sup>2</sup> For example, see Abraham Becker "National Income Accounting in the USSR," *Soviet Economic Statistics*. Ed. Tremi and Hardt (Durham, North Carolina: Duke University Press, 1972), p. 91. Becker notes that in input/output literature, "Other expenditures are also thought to be associated with defense."

<sup>3</sup> The Soviets have made contradictory statements recently regarding the expenditures included in the previously given line item for defense. In 1987, Soviet Deputy Foreign Minister Petrovskiy said that the line item contained military pensions. In the breakdown of the new 77.3-billion-ruble figure, however, the 20.2-billion-ruble figure is classified strictly as upkeep and operations, and the 2.3 billion rubles for pensions is separate from this.

<sup>4</sup> *Ekonomicheskaya gazeta*, No. 40, October 1989.

<sup>5</sup> See Dan Gallik, *The Soviet Financial System (International Population Statistics Reports, Series P-90, No. 23, U.S. Department of Commerce, 1968)* pp. 80-81. Gallik shows that among the budget's "Subset B" articles of expenditure, which are reserved for *khozraschet* enterprises and organizations, Article 31 finances "product designing and preparation of test models." We believe that all FNE funds are distributed through the budget's Subset B articles.

<sup>6</sup> In contrast to Ryzhkov's figure, we estimate that the Soviets spent 32-35 billion rubles on RDT&E in 1989. This estimate is based on a resource cost methodology that identifies, tracks, and costs specific RDT&E activities that support the USSR's military. While we believe that actual Soviet spending on RDT&E is substantially higher than their published figure, the USSR's figure as a percentage of the published defense budget—20 percent—is consistent with our estimate that RDT&E represents 20 to 25 percent of total Soviet military spending. Also, the Soviets have recently said that over half of their total RDT&E spending is defense related—a proportion that is also consistent with our judgments.

<sup>7</sup> Because the Finance Minister's proposed breakdown of Sociocultural Measures actually adds up to more than the group's spending total, we cannot be completely confident in the accuracy of these figures. The proposed totals for Scientific Research, Public Education, Health Care, and Social Insurance and Security add up to 167.7 billion rubles, higher than the proposed group total of 163.5 billion rubles by 4.2 billion—which is in turn the amount allocated for "Raising Living Standards." Most likely, the group total of 163.5 billion rubles was originally calculated excluding the living standards measures, while the individual figures included the additional money. In this case, the individual figures should be comparable to each other, but are not comparable to the 163.5-billion-ruble group total because of the total's more limited coverage.

<sup>8</sup> This list is derived from Gallik's list of the Subset B articles of expenditure, which are used for FNE (Ibid, pp. 80-82). The list represents those outlays left over after subtracting all articles of expenditure that may relate to the designated capital investments or subsidies account.

<sup>9</sup> This is a high estimate based on an assumption that only about 3.7 billion rubles from Subsidies went into the FNE residual, as discussed in the next note. We assume that the remaining 30.1 billion rubles in the FNE residual probably came from the centralized expenditures account.

<sup>10</sup> For this analysis, we assume that some 3.7 billion rubles from the Subsidies account has gone into the FNE residual. This is based on former Finance Minister Gostev's proposal to spend 3.7 billion rubles in 1989 on subsidies and other payments for the production of children's goods. Although it is unclear whether these measures were to be funded out of FNE or Sociocultural Measures, if they were funded out of FNE they almost certainly would have been in the Subsidies account and are now in the FNE Residual. We can identify no other sums that would likely have been transferred from the Subsidies account to the FNE Residual.

<sup>11</sup> Note that the description of the FNE residual's sources is only our best guess. The actual proportions coming from Centralized Expenditures and Subsidies may be slightly different in reality. This, however, does not affect the key finding that in total 87.0 billion rubles were freed from FNE for redistribution in the budget.

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" The total breakdown of the 87.0 billion rubles is as follows (in billions). This table represents the difference between the proposed 1989 budget and the revised 1989 budget for each account. Since the overall budget total remained essentially unchanged between the budgets, any growth in an account between the proposed budget and the revised budget was probably funded out of the decrease in FNE. These growth figures thus represent a "claim" on the freed FNE funds and are represented by negative numbers. We have assumed that the 0.1-billion-ruble increase in the revised budget total is related to the 0.1-billion-ruble increase in Health in the revised budget. By discounting this difference, the change in the adjusted Sociocultural Measures groups in the two budgets becomes 4.2 billion rubles—the amount that the Soviets say they spent on measures to increase living standards. Also, the budget law approved by the Supreme Soviet added 3.2 billion rubles to FNE from an unidentified account, and this must be corrected for by a negative term. The State Management figure is represented by a positive number because it actually declined, possibly reflecting a transfer of some defense-related administration spending to the military spending figure as is shown in the following tabulation:

Account	Amount (Billion rubles)
Total FNE reduced or "freed" between Proposed and Approved 1989 state budgets	87.0
Claims on freed FNE funds for: sociocultural measures	-4.2
Of which:	
Proposed group total	163.5
Science transferred out	-21.5
Military education out	-0.6
Military pensions out	-2.3
Adjusted proposed total	139.1
Revised budget total	143.4
Minus increase in health	-0.1
Adjusted revised total	143.3
Difference, from FNE	4.2
Foreign Economic Activities	-2.8
Change in State Management	0.2
Law Enforcement	-8.6
State Internal Debt	-7.2
Overall Budget Residual	-21.0
Correction for sum transferred from unidentified account in Budget Law	-3.2
Total nondefense "claims" on freed FNE funds	-46.8
Total military "claims" on freed FNE funds	-40.2
Total "claims" on freed FNE funds	-87.0

" This 40.2 billion rubles could account for the 32.6 billion rubles for procurement, the 4.6 billion rubles for construction, about 1.3 billion rubles for RDT&E, plus about 1.7 billion rubles of the "other" expenditures that the Soviets now say are for nuclear weapons.

" Premier Ryzhkov said that total Soviet space expenditures included 3.9 billion rubles for military programs, 1.7 billion rubles for civilian programs, and 1.3 billion rubles for the Buran shuttle system.

" Moscow television recently reported that the planned 30 March 1990 launch of the space module "Kristal" should turn a profit of about 25 million rubles. According to the report, the module should allow the Mir space station to produce about 105 million rubles' worth of crystals, ultrapure proteins, and photographic films for cartographers. Meanwhile, the expected cost of the expedition is only 80 million rubles. While the Soviet figures may be dubious, this report demonstrates that a portion of the Soviet space program may be self-financed—and outside the state budget.

" The state budget described in the text is a generalized version that is probably based on a detailed budget document which we do not have. The problem of untangling subsidies is best explained by discussing the detailed budget's subdivisions and the limitations in Soviet accounting procedures. Here, Western analysts believe that the FNE group is broken down by divisions that represent individual ministries or agencies—the administrative players who spend the funds. For each of these ministries, the bulk of its budget funds will come from the FNE group under a common set of expenditure accounts, the "group B" articles mentioned in notes 5 and 8. These ministries may also receive appropriations from other budget groups such as Sociocultural Measures and its "group A" articles of expenditure. This variety of available budget accounts and the number of entities receiving defense subsidies point to the need for a level of financial control and automation that the Soviets may not have. (Note that the Soviets do not publish the expenditures under each of the FNE divisions. Instead, published budget statistics for FNE break the group only into sectors of the economy, such as industry and construction, agriculture, trade, transportation, communications, and housing. These subgroups probably represent groupings of similar ministries.)

" Therefore, for any given defense good, the price, rate of subsidy, and the impact on the budget depend at least in part on the producing entity's parochial interests and capacity for budgetary shenanigans.

" The Ministry of Finance report provides a moderately detailed overview of the state budget's revenues and expenditures in 1988. It also compares the revenue and expenditure results with the plan, and discusses the dynamics behind some of the results. The report does not provide the fully detailed budget document mentioned in note 16, however

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" The 4.5 billion rubles in military pensions in the Ministry of Finance report appears to cover both disability and retirement pensions, while our estimates of total defense spending include only retirement pensions. In the United States, only 11.5 percent of all retirees were disability retirees in FY1980. Since the Soviets have stricter rules on what constitutes a disability, however, their proportion may be smaller and their total military disability pensions probably total about 400 million rubles. Of the remaining 4.1 billion rubles, Premier Ryzhkov has apparently included 2.3 billion rubles in the defense spending figure, leaving about 2 billion rubles in pensions in the Social Insurance and Security account.

" The union budget probably contains the vast majority of all defense spending. For 1989, the Soviets have published a union budget total of 230.7 billion rubles—more than enough to encompass the 77.3-billion-ruble defense budget plus up to 50 billion rubles in additional defense spending. The Soviets, however, have not published spending totals for the separate groups or accounts in the 1989 union budget, making it impossible for us to test our estimate of additional military spending on an account-by-account basis in the union budget. We thus attempted to estimate the structure of the 1989 union budget by dividing its total spending by the account proportions in the published 1990 union budget. While this method is imperfect due to additional changes in the 1990 budget, it confirmed the possibility of significant military spending still harbored in various nonmilitary budget accounts. With regard to our account-by-account estimates of additional military spending, our estimated 1989 union budget can encompass up to 26 billion of the 50 billion rubles in possibly still-undisclosed defense spending

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**Table 5**  
Changes in the 1989 Soviet State Budget  
and the Incorporation of the New  
Defense Spending Figure

Billion rubles

**Proposed 1989 Budget**

Account Designation	Total
<b>Total Expenditure</b>	494.7
<b>Financing the National Economy Group</b>	
Centralized Financing of Sectors of the National Economy	
Targeted Budget Subsidies for Food and Other Social Needs	
<b>Sociocultural Measures</b>	
Scientific Research Work	
Public Education, Culture, Art	
Health Care and Physical Culture	
Social Insurance and Security	
(Calculated Residual)	
<b>Foreign Economic Activity</b>	
Ensuring Defense Capability	
State Management	
<b>Reserve Funds</b>	

**Revised 1989 Budget**

Total	Account Designation
494.8	<b>Budget Allocations—All</b>
199.4	<b>FNE/Material Production, Science</b>
70.3	Centralized Capital Investments
87.8	Subsidies for Food Production
7.5 <sup>b</sup>	Financing of Science
33.8	(Calculated Residual)
143.4	<b>Sociocultural Measures/Nonproduction</b>
46.9	Public Education, Culture, Art
24.9	Health Care and Physical Culture
71.6	Social Insurance and Security
31.4	<b>Foreign Economic Activity</b>
10.8	Funding Foreign Trade
12.5	Credits and Foreign Aid
5.3	Servicing External Debt
2.8	(Calculated Residual)
88.7 <sup>d</sup>	<b>Centralized Social Requirements</b>
2.8	Financing of Defense
8.6	Organs of State Administration
7.2	Financing Law Enforcement Organs
7.2	Servicing State Internal Debt
3.7	<b>Monetary Reserves</b>
21.0 <sup>e</sup>	(Overall Budget Residual)

Note: The designations in bold type indicate major budget groups; the others indicate specific expenditure types within a major group. The designations in parentheses were not explicitly provided by the Soviets, but have been inferred from Soviet statements.

<sup>a</sup> The actual budget law approved by the Supreme Soviet contained total allocations of 494.8 billion rubles, and Financing the National Economy allocations of 278.9 billion rubles. However, the budget law did not contain the individual figures for Financing the National Economy subaccounts or show where the added 3.2 billion rubles for the group came from.

<sup>b</sup> Soviet publications and Pavlov's speeches have been ambiguous regarding the inclusion of science in the FNE total of 199.4 billion rubles. Although this table, and indeed this analysis, assumes that the money for science is included in the FNE total, an alternative scenario would place science under the first group but financed separately from FNE. In this latter scenario, the FNE Residual would rise and the Overall Budget Residual would fall by the amount of the financing for science. The overall analysis would not change significantly, however.

<sup>c</sup> In the revised budget, the Soviets noted that they would spend 4.2 billion rubles on "measures to raise living standards," and implied that at least part of this spending was included in Sociocultural Measures. We believe that the negative residual in the proposed budget's Sociocultural Measures group is related to the spending for living standards. Most likely, the spending was excluded from the group total in the proposed budget, but was included in the individual account totals. In this case, the individual figures in the proposed and revised budgets should be comparable to each other, but are not comparable to the 163.5-billion-ruble group total because of the total's more limited coverage.

<sup>d</sup> The Soviets have not provided a total for this group. If the Overall Budget Residual actually consists of military spending, it may be included in this group, bringing the group's total spending figure to almost 110 billion rubles.

<sup>e</sup> This residual is calculated by subtracting total specified spending from the overall budget total of 494.8 billion rubles. The Soviets did not explicitly provide the residual total of 21.0 billion rubles.

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